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STATE OF MONTANA
FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA
REPORT ON AUDIT
FISCAL YEARS ENDED JUNE 30, 1995 AND 1996

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STATE OF MONTANA
FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA
REPORT ON AUDIT
FISCAL YEARS ENDED JUNE 30, 1995 AND 1996

CONDUCTED UNDER CONTRACT BY
JAMES J. WOSEPKA
CERTIFIED PUBLIC ACCOUNTANTS
BAKER, MONTANA



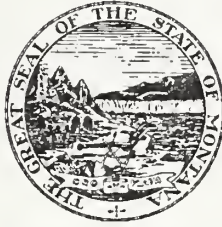
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MONTANA LEGISLATIVE BRANCH

Legislative Auditor
Scott A. Seacat

Legal Counsel:
John Northey



Deputy Legislative Auditors:
Mary Bryson
Operations and EDP Audit
James Gillett
Financial-Compliance Audit
Jim Pellegrini
Performance Audit

LEGISLATIVE AUDIT DIVISION

November 1996

The Legislative Audit Committee
of the Montana State Legislature:

Enclosed is the report on the audit of the Flathead Valley Community College for the two fiscal years ended June 30, 1996.

The audit was conducted by James J. Wosepka, Certified Public Accountant, under a contract between the firm and our office. The comments and recommendations contained in this report represent the views of the firm and not necessarily the Legislative Auditor.

The agency's written response to the report recommendations is included in the back of the audit report.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Scott A. Seacat", is written over a horizontal line.

Scott A. Seacat

Legislative Auditor

96C-02

FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA

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FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA

APPOINTIVE AND ADMINISTRATIVE OFFICIALS

MONTANA BOARD OF REGENTS OF HIGHER EDUCATION

MARC RACICOT	GOVERNOR
RICHARD CROFTS	INTERIM COMMISSIONER OF HIGHER EDUCATION
NANCY KEENAN	SUPERINTENDENT OF PUBLIC INSTRUCTION
JAMES KAZE	CHAIRPERSON
PAUL BOYLAN	
KERMIT R. SCHWANKE	
COLLEEN CONROY	
PAT DAVISON	
STUDENT: MIKE GREEN	

FLATHEAD VALLEY COMMUNITY COLLEGE BOARD OF TRUSTEES

GORDON PIRRIE	CHAIRPERSON
JEANNE TALLMAN	VICE CHAIRPERSON
JOHN ENGBRETSON	
ROBERT WALTMIRE	
THOMAS HARDING	
H.C. ROSS	
JOHN SANTA	

ADMINISTRATION

DAVID BEYER	PRESIDENT
LARRY RASMUSSEN	DEAN OF ADMINISTRATIVE SERVICES
WALTER NOLTE	DEAN OF EDUCATIONAL SERVICES
JACK BURCHAM	CONTROLLER

FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA

GENERAL

We performed financial/compliance audits of the Flathead Valley Community College for the fiscal years ended June 30, 1995 and 1996. The objectives of our audits were to: (1) determine if the financial statements of the College present fairly its financial position and results of operations for the fiscal years then ended; (2) determine if the College complied with applicable state and federal laws and regulations; (3) make recommendations for the improvement of management and internal controls; and (4) determine whether prior audit recommendations have been effectively implemented.

We thank the Flathead Valley Community College staff for their cooperation and assistance during our audits.

HISTORY AND BACKGROUND

In the 1960's, residents of the Flathead Valley recognized a need for localized higher education. Glacier College, in conjunction with Whitworth College of Spokane, provided some educational services over the course of several years; however, the need for a separate, locally-controlled and locally-responsive college soon became apparent.

A group of citizens, dedicated to the goal of bringing post-secondary education to the community, laid the groundwork for a college to be established

On April 1, 1967, the voters of Flathead County agreed to create a community college district, according to the Community College law of the 1965 Montana legislative assembly. In 1983, the voters of Lincoln County agreed to create a community college extension center of FVCC to serve the residents of Lincoln County.

Flathead Valley Community College is a comprehensive community college, providing college transfer, vocational and community service classes for residents of northwestern Montana.

In 1984-85 the College added the Glacier Institute program in Glacier Park and the Lincoln County Center which provides classes to the residents of Lincoln County. These programs are fully accredited by the Northwest Association of Schools and Colleges.

FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA

RECOMMENDATIONS

Grant Receipts

The College has large receivable and prepayment balances in different federal fund programs.

Recommendation #1

We recommend the College continue to develop a system of accounting for federal funds for each program, so revenues more closely relate to program expenditure needs.

College response: Concur

FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA

FTE COUNTS

A major funding criterion for the College is the number of full-time equivalent (FTE) students registered. FTE's are computed in accordance with guidelines published by the Commissioner of Higher Education. We reviewed the FTE counts reported by the College for fiscal years 1994-1995 and 1995-1996 for compliance with published guidelines and accuracy. We found no exceptions at the Flathead Valley Community College (see Student Full-Time Equivalent, page 28).

PRIOR AUDIT RECOMMENDATIONS

The audit of two fiscal years ended June 30, 1994 of the Flathead Valley Community College contained four recommendations. Three of those recommendations were implemented, and one was partly implemented.

Prior Areas of Recommendation -

1. Grant Reporting
Accuracy of determining grant receivable or deferred revenue on a grant by grant basis. Implemented.
2. Disbursements
Proper authorization, including dual signatures; warrants recorded properly in the general ledger and voided warrants are properly accounted for. Implemented.
3. Fixed Assets
Subsidiary asset listing be updated and reconciled to amount in Investment in Plant Fund. Implemented.
4. Grant Receipts
Carl Perkins grant cash balance be carried over to next fiscal year. Implemented.
Draw down federal funds for the awards needed on a timely basis so there are not large grant receivable balances. Not implemented.

Findings By Program Review of the Title IV Federal
Student Financial Assistance Programs

1. Ineligible Student/Enrolled in Challenge Course Only
Resolution - College repaid the funds.
2. Late Title IV Program Refunds
Resolution - Refunds calculated and refund policy and procedures put in place.
3. Incorrect Pell Grant Payment
Resolution - Additional amount due to student was credited.
4. Repayment Policy Not Developed
Resolution - Repayment policy and procedures put in place.
5. Bank Accounts - Federal Funds Not Identified
Resolution - Made written notice to Bank.
6. FFEL Exit Counseling not Documented/Performed
Resolution - Exit counseling performed.

INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS

JAMES J. WOSEPKA

CERTIFIED PUBLIC ACCOUNTANT

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INDEPENDENT AUDITORS' REPORT

Legislative Audit Committee
of the Montana State Legislature

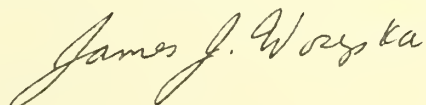
We have audited the accompanying financial statements of Flathead Valley Community College as of and for the years ended June 30, 1995 and 1996 as listed in the table of contents. The financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Flathead Valley Community College as of June 30, 1995 and 1996, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

Our examination was made for the purpose of forming an opinion on the financial statements taken as a whole. The information included in the supplementary schedules is presented for purpose of additional analysis and is not a required part of the financial statements. The information has been subjected to the auditing procedures applied in the examinations of the financial statements of Flathead Valley Community College, and in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

September 20, 1996
Baker, Montana



FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA
BALANCE SHEET
JUNE 30, 1996

	CURRENT FUNDS					PLANT FUNDS		INVESTMENT IN PLANT	AGENCY
	UNRESTRICTED GENERAL OPERATING	DESIGNATED	AUXILIARY	RESTRICTED	LOAN STUDENT	UNEXPENDED	IN PLANT		
ASSETS:									
Cash on Hand & in Bank	\$ 3,000	\$	500	\$ 100	\$ 1,000	\$	\$		\$
Cash with County Treasurer	763,550	93,855		24,997		721,646			51,467
Investments						9,841			
Receivables:									
Taxes Receivable	275,404			36,483		96,835			
Tuitions									
Receivable	185,705	1,617	1,487	235,936		17,019			437
Student Loan Rec.					9,486				
Other Receivables	41,293	190	46,000	124,358	79				221
Allowance for									
Doubtful Accts.	(26,750)					(2,857)			
Total Receivable	475,652	1,807	47,487	396,777	9,565	110,997			658
Prepaid Expenses	35,087								
Inventories			111,357						
Due From Other Funds	115,877								
Amount to be Provided for Retirement of Longterm Debt							5,720,000		
Property, Plant Equipment:									
Land							765,776		
Buildings and Improvements							7,051,905		
Equipment							2,038,816		
Library Resources							261,614		
Total PP&E							10,118,111		
Total Assets	\$1,393,166	\$95,662	\$159,344	\$421,874	\$10,565	\$842,484	\$15,838,111		\$52,125

FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA
BALANCE SHEET
JUNE 30, 1996

	CURRENT FUNDS							AGENCY
	UNRESTRICTED		RESTRICTED		LOAN STUDENT LOANS	PLANT FUNDS		
	GENERAL OPERATING	DESIGNATED AUXILIARY	RESTRICTED	RESTRICTED		UNEXPENDED IN PLANT	INVESTMENT IN PLANT	
Liabilities:								
Accounts Payable and Accrued Liabilities	\$ 153,929	\$ 56,850	\$ 7,127	\$ 33,018	\$	\$ 9,841	\$	\$11,789
Accrued Employee Leave	440,516			37,702				
Deferred Revenue	98,495	6,107				44,113		3,479
Interest Payable						13,688		33,009
Other Liabilities and Deposits								
Bonds Payable							5,720,000	
Other Notes & Loans							441,398	
Due to Other Funds			115,126				751	
Due to Grantor				312,047				3,848
Total Liabilities	692,940	62,957	122,253	382,767		67,642	6,161,398	52,125
Fund Balances	700,226	32,705	37,091	39,107		774,842	9,676,713	
Total Liabilities and Fund Balances	\$1,393,166	\$ 95,662	\$159,344	\$421,874	\$10,565	\$842,484	\$15,838,111	\$52,125

SEE NOTES TO FINANCIAL STATEMENTS

FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA
COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1996

	CURRENT FUNDS				PLANT FUNDS	
	UNRESTRICTED GENERAL	RESTRICTED	LOAN STUDENT	INVESTMENT IN PLANT	UNEXPENDED	IN PLANT
	OPERATING	AUXILIARY	LOANS			
Tuition & Fees	\$1,299,952	\$ 323,856	\$ 45,263	\$	\$ 524,619	\$
State Appropriations 2,511,837						
Local Appropriations 1,457,060	30,604	181,058			408,613	
Federal Grants & Contracts		1,727,946				
State Grants & Contracts		66,927				
Private Gifts, Grants and Contributions	26,088					
Investment Income	39,418				80,197	
Sales & Service		482,380				
Other Revenues	15,845	51,308	36,987		6,433	
Retirement of Indebtedness						158,958
Expended for Plant Facilities						102,597
Total Revenues and Other Additions	\$5,324,112	\$ 431,935	\$2,058,181	\$	\$1,019,862	\$261,555

FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1996

	CURRENT FUNDS					PLANT FUNDS	
	UNRESTRICTED	RESTRICTED	AUXILIARY	LOAN	UNEXPENDED	INVESTMENT	
	GENERAL OPERATING	DESIGNATED		STUDENT LOANS		IN PLANT	
Instruction	\$2,317,011	\$ 62,435	\$	\$ 508,738	\$	\$	
Public Service		327,383					
Academic Support	567,752	2,753		575,470			
Student Services	646,200						
Institutional							
Support	1,062,825	55,986					
Operation &							
Maintenance	487,058				102,131		
Scholarship	189,743						
Auxiliary Expenses			419,757				
Principal Payment							
On Debt					468,957		
Expended for Plant							
Facility							
Interest on Debt					332,340		
Total Expenditures							
& Other Deductions	\$5,270,589	\$448,557		\$	\$903,428	\$	
Transfers In (Out)	(69,624)	22,238		(22,238)	69,624		
Increase(Decrease)							
in Fund Balances	(16,101)	5,616	62,623	(7,827)	186,058	261,555	
Beginning Fund							
Balances	716,327	27,089	(25,532)	46,934	588,784	9,415,158	
Ending Fund							
Balances	700,226	32,705	37,091	39,107	774,842	9,676,713	
FUND BALANCES							
CONSIST OF:							
Unrestricted	\$ 700,226	\$ 32,705	\$ 37,091				
Restricted				\$ 39,107	\$9,814	\$774,842	
Net Investment in							
Plant						\$9,676,713	

FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA
BALANCE SHEET
JUNE 30, 1995

	CURRENT FUNDS				LOAN STUDENT LOANS	PLANT FUNDS UNEXPENDED	INVESTMENT IN PLANT	AGENCY
	UNRESTRICTED	RESTRICTED	AUXILIARY	RESTRICTED				
	GENERAL OPERATING	DESIGNATED						
ASSETS:								
Cash on Hand & in Bank	\$ 3,000	\$	\$ 500	\$ 100	\$	\$	\$	\$ 100
Cash with County Treasurer	753,507	38,263			2,727	561,829		41,989
Investments						8,514		
Receivables:								
Taxes Receivable	221,230			21,944		63,875		338
Tuition Receivable	167,532	1,049	2,781	234,461		12,186		
Student Loan Rec.					7,008			
Other Receivables	45,955	704	34,569	119,650	79	6,676		650
Allowance for Doubtful Accounts	(26,750)							
Total Receivables	407,967	1,753	37,350	376,055	7,087	(2,857)		988
Prepaid Expenses	34,003					79,880		
Inventories			119,528					
Due From Other Funds	187,778							
Amount to be Provided for Retirement of Long-term Debt							6,030,000	
Property, Plant & Equipment:								
Land								
Buildings and Improvements							765,776	
Equipment							7,051,905	
Library Resources							1,956,749	
Total PP&E							241,084	
Total Assets	1,386,255	40,016	157,378	376,155	9,814	650,223	10,015,514	43,077

FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA
BALANCE SHEET
JUNE 30, 1995

	CURRENT FUNDS						LOAN STUDENT LOANS	PLANT FUND		INVESTMENT IN PLANT	AGENCY
	UNRESTRICTED		RESTRICTED		UNEXPENDED	AGENCY					
	GENERAL OPERATING	DESIGNATED	AUXILIARY	RESTRICTED							
Liabilities:											
Accounts Payable and Accrued Liabilities	\$ 171,978	\$ 7,449	\$ 4,004	\$ 21,892	\$	\$ 8,514	\$	\$ 1,090			
Accrued Employee Leave	410,116			34,620							
Deferred Revenue	87,834	5,478				39,043		2,120			
Interest Payable						13,882					
Other Liabilities and Deposits											39,867
Bonds Payable								6,030,000			
Other Notes & Loans								600,356			
Due to Other Funds			178,906	8,872							
Due to Grantor				263,837							
Total Liabilities	669,928	12,927	182,910	329,221		61,439		6,630,356		43,077	
Fund Balances	716,327	27,089	(25,532)	46,934		588,784		9,415,158			
Total Liabilities and Fund Balances	\$1,386,255	\$40,016	\$157,378	\$376,155		\$9,814	\$650,223	\$16,045,514		\$43,077	

SEE NOTES TO FINANCIAL STATEMENTS

FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1995

	CURRENT FUNDS				LOAN STUDENT LOANS \$	PLANT FUNDS	
	UNRESTRICTED	RESTRICTED	AUXILIARY \$	RESTRICTED \$		UNEXPENDED \$	INVESTMENT IN PLANT \$
	GENERAL OPERATING	DESIGNATED					
Tuition & Fees	\$1,319,346	\$309,107		\$ 59,187		\$ 521,087	
State Appropriations	2,244,974						
Local Appropriations	1,528,115	11,002		159,808		427,214	
Federal Grants & Contracts				1,695,557			
State Grants & Contracts				61,855			
Private Gifts, Grants and Contributions		6,128				122,899	
Investment Income	5,000	91					
Sales & Service			455,318				
Other Revenues	10,685	45,881		23,220		6,796	
Retirement of Indebtedness							153,536
Expended for Plant Facilities							<u>143,926</u>
Total Revenues & Other Additions	<u>5,108,120</u>	<u>372,209</u>	<u>455,318</u>	<u>1,999,627</u>		<u>1,077,996</u>	<u>297,462</u>

FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1995

	CURRENT FUNDS		RESTRICTED	LOAN STUDENT LOANS	PLANT FUNDS	
	UNRESTRICTED	DESIGNATED			UNEXPENDED	INVESTMENT IN PLANT
	GENERAL	AUXILIARY				
Instruction	OPERATING		RESTRICTED			
Public Service	\$2,337,010	\$ 59,560	\$ 457,868	\$	\$	\$
Academic Support	305,967					
Student Services	2,971		480,376			
Institutional						
Support	904,562	36,145				
Operation &						
Maintenance	488,421				127,588	
Scholarship	192,631		1,057,753			
Auxiliary Expenses		447,209			453,555	
Principal Payment on Debt						65,728
Expended for Plant						
Facilities					349,774	
Interest on Debt						
Total Expenditures						
& Other Deductions	5,085,125	404,643	1,995,997		930,917	65,728
Transfers In (Out)	(73,933)	9,804	(9,274)		73,403	
Increase(Decrease)						
in Fund Balances	(50,938)	(22,630)	(5,644)		220,482	231,734
Beginning Fund						
Balances	767,265	49,719	52,578	9,814	384,467	9,167,259
Restatement*		(33,641)			(16,165)	16,165
Ending Fund Balances	<u>716,327</u>	<u>(25,532)</u>	<u>46,934</u>	<u>9,814</u>	<u>588,784</u>	<u>9,415,158</u>
FUND BALANCES						
CONSIST OF:						
Unrestricted	<u>716,327</u>	<u>27,089</u>	<u>46,934</u>	<u>9,814</u>	<u>588,784</u>	
Restricted						
Net Investment in						
Plant						<u>9,415,158</u>

*See Note 8

FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA
STATEMENTS OF CASH FLOW OF AUXILIARY FUNDS
FOR THE YEARS ENDED JUNE 30, 1995 AND 1996

	<u>1995</u>	<u>1996</u>
Cash Flow From Operating Activities:		
Net Income	\$ 8,109	\$ 62,623
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable	30,607	(10,137)
(Increase) Decrease in Inventories	16,850	8,171
Increase (Decrease) in Accounts Payable	(<u>2,038</u>)	<u>3,123</u>
Net Cash Provided by Operations	53,528	63,780
Cash Transferred From (To) Other Fund	_____	_____
Net Increase in Cash	53,528	63,780
Cash at Beginning of Year	(<u>231,934</u>)	(<u>178,406</u>)
Cash at End of Year	\$ (<u>178,406</u>)	\$ (<u>114,626</u>)

SEE NOTES TO FINANCIAL STATEMENTS

FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1995 AND 1996

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Reporting Entity

The Flathead Valley Community College was established in April 1967, under the statutory provision for community colleges enacted by the 1965 Montana Legislative Assembly. It serves the residents of Flathead and Lincoln Counties, as well as individuals from other parts of Montana and throughout the nation. The College is fully accredited by the Northwest Association of Schools and Colleges.

The governments of Flathead and Lincoln Counties provide substantial services to the College. Taxes are levied and collected by the Counties. Cash is maintained and invested by the Flathead County Treasurer.

Under the laws of Montana, the Board of Regents of Higher Education is vested with the general supervision of community colleges. Flathead Valley Community College is governed by a board of trustees elected from the community. The college president is responsible for the immediate direction, management, and control of the institution; thus, the College is treated as a separate and independent local government unit. The following entities are not included because the Board of Trustees does not have significant oversight responsibility:

Public Employees' Retirement System
Teachers' Retirement System

Flathead Valley Community College offers the following instructional services for which associate degrees and/or certificates of completion may be granted:

1. Freshman and sophomore courses for transfer to a four-year university or college leading toward a baccalaureate degree.
2. Occupational education for entry into specific vocations and upgrading in order to increase effectiveness on the job.
3. Developmental education for students who are not prepared for college work and/or occupational programs.
4. Continuing education for individuals in the community who may desire further education in a vocational field or in a social, cultural interest. Programs and courses can be varied and modified to meet the needs and demands of the community.

Basic funding for current operations of the College is provided from the state general fund, student tuition and fees, tax levies and various federal and state grants.

FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA

NOTES TO FINANCIAL STATEMENTS (CONT)
JUNE 30, 1995 AND 1996

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED:

Financial Statements

The financial statements have been prepared on the accrual basis in accordance with generally accepted accounting principles for colleges and universities.

Fund Accounting

The accounts of the College are maintained in accordance with the principles of fund accounting wherein resources are classified for accounting purposes into funds that are identified by the limitations and restrictions placed on their use.

Separate accounts are maintained for each fund, however, accounts with common characteristics are combined into fund groups and reflected as such in the accompanying financial statements.

The common characteristics of the funds contained in the various groups are as follows:

Current Funds:

The current funds group includes economic resources expendable in performing the primary objectives of the college, i.e., instruction and public service. The current funds group have two basic distinct subgroups: unrestricted funds which have no expenditure restrictions and restricted funds which have expenditure restrictions. Current funds are comprised of the following:

Unrestricted - utilized for general operations in performing the primary objectives of the College.

Restricted - utilized for the operations of the College but limited by donors and other external agencies to specific purposes, programs or departments.

Designated - resources are designated or restricted for a specific purpose.

Auxiliary Enterprises - utilized in providing essential on campus services primary to students, faculty and staff (self-supporting).

FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA

NOTES TO FINANCIAL STATEMENTS (CONT)
JUNE 30, 1995 AND 1996

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED:

Student Loan Funds

The resources from these funds are available to students for emergency loans to aid in financing their education.

Plant Funds

Plant funds are separated into two distinct self-balancing subgroup accounts:

Unexpended - utilized for debt servicing, retirement of indebtedness, and operation and maintenance.

Investment in Plant - denotes the cost of long-term institutional assets and related liabilities and equity.

Inventories

Inventories, which consist mainly of bookstore supplies, are valued at cost (first-in/first-out method).

Cash and Investments

The College pools all of its available funds with other funds of the County in order to receive the maximum amount of return. The College pays the County .5% of all interest earned as a management fee.

Investments are valued at cost in the financial statements. The College has invested in a time deposit.

The College's deposits are categorized by the level of credit risk. Category 1 includes cash and investments fully insured or collateralized with securities held by the College or its agent in the College's name. Category 2 includes collateralized investments with securities held by the financial institution's trust department or agency in the College's name. Category 3 are uncollateralized investments.

FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA

NOTES TO FINANCIAL STATEMENTS (CONT)
JUNE 30, 1995 AND 1996

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED:

	<u>1</u>	Category <u>2</u>	<u>3</u>	Carrying <u>Value</u>	Market <u>Value</u>
June 30, 1996					
Cash with County Treasurer	\$1,655,515			\$1,655,515	\$1,655,515
Certificate of Deposit	<u>9,841</u>			<u>9,841</u>	<u>9,841</u>
	<u>\$1,665,356</u>			<u>\$1,665,356</u>	<u>\$1,665,356</u>
June 30, 1995					
Cash with County Treasurer	\$1,398,315			\$1,398,315	\$1,398,315
Certificate of Deposit	<u>8,514</u>			<u>8,514</u>	<u>8,514</u>
	<u>\$1,406,829</u>			<u>\$1,406,829</u>	<u>\$1,406,829</u>

Plant and Equipment

Physical plant and equipment are stated at cost at date of acquisition. Depreciation on physical plant and equipment is not recorded.

Activity in Plant and Equipment is as follows:

	6/30/94	Additions	Deletions	6/30/95	Additions	6/30/96
Land	\$ 765,776	\$	\$	\$ 765,776	\$	\$ 765,776
Building	7,051,905			7,051,905		7,051,905
Movable						
Equipment	1,905,410	117,067	(65,728)	1,956,749	82,067	2,038,816
Library						
Resources	<u>214,225</u>	<u>26,859</u>		<u>241,084</u>	<u>20,530</u>	<u>261,614</u>
	<u>\$9,937,316</u>	<u>\$143,926</u>	<u>\$ (65,728)</u>	<u>\$10,015,514</u>	<u>\$102,597</u>	<u>\$10,118,111</u>

Unearned Tuition and Fees

Summer school tuition and fees revenues and related expenses are deferred at June 30, and recorded as revenues and expenses in the succeeding fiscal years.

FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA

NOTES TO FINANCIAL STATEMENTS (CONT)
JUNE 30, 1995 AND 1996

NOTE 2 NOTES PAYABLE

Notes payable consist of the following as of June 30:

	<u>1996</u>	<u>1995</u>
Note payable at an 8% interest rate. Payable in November of each year at \$50,000 until paid with final maturity in 2005, secured by land.	<u>\$250,844</u>	<u>\$278,871</u>

The remaining principal payments required under this note are as follows:

1996	\$ 29,933
1997	32,327
1998	34,913
1999	37,706
2000	40,723
Thereafter	<u>75,242</u>
	250,844
Total Interest Payments	<u>82,918</u>

Total Debt Service Required \$333,762

NOTE 3 CAPITAL LEASES PAYABLE

	<u>June 30, 1996</u>	<u>June 30, 1995</u>
Lease obligation for computer system with monthly payments including interest of \$3,558 through September, 1996.	\$ 10,500	\$ 49,999

Lease obligation for computer system with monthly payments including interest of \$8,965 through May, 1999.	<u>180,054</u>	<u>271,486</u>
Total Capital Leases Payable	<u>\$190,554</u>	<u>\$321,485</u>

Future minimum lease payments under capitalized lease obligations are as follows at June 30, 1996 for the years ending June 30:

1997	\$113,342
1998	48,584
1999	<u>44,457</u>
	206,383
Amount representing imputed interest at approximately 7.5%	(<u>15,829</u>)
	<u>190,554</u>

FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA

NOTES TO FINANCIAL STATEMENTS (CONT)
JUNE 30, 1995 AND 1996

NOTE 4 BONDS PAYABLE

On July 1, 1994, Flathead Valley Community College issued general obligation bonds, Series 1993, at a purchase price of \$6,515,000 and an interest rate of 2.75%-5.50% to advance refund the Series 1989 bonds of \$6,495,000 at an interest rate of 6.4%-9.0% maturing July 1, 2000 through 2009. The Series 1993 bonds were issued at par and, after paying issuance costs of \$23,600, the net proceeds were \$6,599,456. The net proceeds from the issuance of the Series 1993 bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the Series 1989 bonds are called on July 1, 1999. The advance refunding met the requirements of an in-substance defeasance and the term bonds were removed from the College's investment in plant fund.

As a result of the advance refunding, the College reduced its total debt service requirements by \$280,909, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$178,807. General obligation bond outstanding are as follows:

<u>June 30, 1994</u>	Retired	<u>June 30, 1995</u>	Retired	<u>June 30, 1996</u>
\$6,330,000	\$300,000	\$6,030,000	\$310,000	\$5,720,000

The remaining principal payments required under the terms of the bond issue are as follows:

1997	\$ 320,000
1998	335,000
1999	360,000
2000	370,000
2001	390,000
Thereafter	<u>3,945,000</u>
	5,720,000
Total Interest Payments	<u>2,257,155</u>
Total Debt Service Required	<u>\$7,977,155</u>

FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA

NOTES TO FINANCIAL STATEMENTS (CONT)
JUNE 30, 1995 AND 1996

NOTE 5 RETIREMENT PLANS

Full time employees of the Flathead Valley Community College are all members of the Public Employees' Retirement System (PERS) or Teachers' Retirement System (TRS). Only faculty and staff with contracts under the authority of the Board of Regents may elect the TRS.

TRS - This mandatory system established in 1937 and governed by Title 19, Chapter 4, MCA, provides retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, vocational-technical center or unit of the University System. Eligibility is met with a minimum of 25 years of service or age 60 with 5 years of creditable service. The formula for accrual benefits is 1/60 times creditable service times the average final compensation. Rights are vested after 5 years of creditable service. Vested employees may retire at or after age 50 and receive reduced retirement benefits.

PERS - This mandatory system established in 1945 and governed by Title 19, Chapter 3, MCA, provides retirement services to substantially all public employees. Benefit eligibility is age 60 with at least 5 years of service; age 65 regardless of service; or 30 years of service regardless of age. Actuarially reduced benefits may be taken with 25 years of service or at age 50 with at least 5 years of service. Beginning January 1, 1989, monthly retirement benefits are determined by taking 1/56 times the number of years of service times the final average salary. Members rights become vested after 5 years of service.

	<u>PERS</u>		<u>TRS</u>	
	<u>1995</u>	<u>1996</u>	<u>1995</u>	<u>1996</u>
Covered Payroll	\$1,732,227	\$1,948,886	\$1,867,942	\$1,780,838
Employer Contribution	115,943	130,576	139,536	134,448

FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA

NOTES TO FINANCIAL STATEMENTS (CONT)
JUNE 30, 1995 AND 1996

NOTE 6 COMPENSATED ABSENCES

The College accounts for unused vacation and sick leave in accordance with the Statement of Financial Accounting Standards No. 43, Accounting for Compensated Absences. Permanent employees can accumulate and carry to the following calendar year two times the maximum number of vacation days earned annually. Unused vacation leave is paid at full value to employees upon termination. Upon termination, unused sick leave earned since July 1, 1971 is paid to the employee under Public Employees' Retirement system at 25% of value, and employees under the Teachers' Retirement System are paid the 25% of value of unused sick leave.

NOTE 7 CONTINGENT LIABILITIES

The Albright Class Action Protest of taxes is currently in the courts, but has not been resolved. The collected taxes have been passed on to the College by the County. The amount in protest for the College is \$180,387. No contingent liability has been set up at year end.

NOTE 8 RESTATEMENT

July 1, 1994 Fund Balances were restated in order to move Interest Payable from Investment in Plant to Unexpended Plant Fund.

* * * * *

SUPPLEMENTAL SCHEDULES

JAMES J. WOSEPKA

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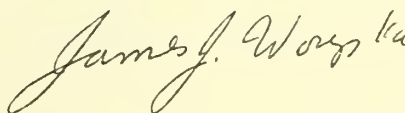
INDEPENDENT AUDITORS' REPORT ON SCHEDULE OF FEDERAL AWARDS

Legislative Audit Committee of the
Montana State Legislature

We have audited the financial statements of Flathead Valley Community College, for the years ended June 30, 1995 and 1996, and have issued our report thereon dated September 20, 1996. These financial statements are the responsibility of Flathead Valley Community College management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit in accordance with these standards includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Our audits were made for the purpose of forming an opinion on the financial statements of Flathead Valley Community College, taken as a whole. The accompanying Schedule of Federal Awards is presented for purposes of additional analysis and is not a required part of the financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.



September 20, 1996
Baker, Montana

FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA

SCHEDULE OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 1996

DIRECT	CFDA	Project	Amount
U.S. Department of Education	Number	Number	Expended
* Pell Grant Program	84.063	P063P33839	\$ 815,445
* Upword Bound	84.047	P047A50281	225,064
* Student Support Systems	84.042	P042A30733-95	184,556
College Work-Study Program	84.033	P033A42416	34,828
Supplemental Educational			
Opportunity Grant	84.007	P007A42416	<u>42,125</u>
Total Direct			<u>1,302,018</u>
INDIRECT			
U.S. Department of Education			
Pass through State Office of Public Instruction			
Adult Basic Education	84.002	96-56-5802-015	50,490
Adult Basic Education Section 353	84.999	96-56-5802-6405	929
Pass through Montana University			
System			
SSIG	84.069	N/A	8,582
Pass through Commissioner of Higher Education			
Tech Prep	84.999	96-TP01	61,517
Disadvantaged Student Retention	84.999	FVCCLA-95-96	73,727
Ready, Set, Go! - Skill Building			
for the 90's	84.999	SP008	33,686
Sexual Harassment Awareness			
Training	84.999	SL-005	6,808
Inservice Training Grant	84.999	96-SL017	24,695
Women In Surveying	84.999	GE013	31,711
Workforce Training	84.999	96-SL013	39,671
Pass through American Association of			
Community Colleges			
Campus & Community Crossroads:			
The Waste Not Project	84.116	94LEB00014	2,281
The Waste Not Project	84.116	94LHB00014	10,003
The Waste Not Project	84.116	N/A	6,577
Service Learning Workshop	84.999	N/A	206
HELP: Health Promotion, Education,			
Leadership, Prevention	84.999	N/A	<u>548</u>
Total Department of Education			<u>\$1,653,449</u>

FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA

SCHEDULE OF FEDERAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 1996 CONTINUED

	CFDA Number	Project Number	Amount Expended
U.S. Department of Health and Human Service			
Pass through Office of Public Instruction			
JTPA 8% Operations	13.999	96-80-5002D523	\$ 15,808
Jobs	13.999	96-53-5082.236	13,128
Pass through Department of Public Health and Human Services			
DayCare Block Grant	13.999	9622DCBG7002	<u>9,080</u>
Total U.S. Department of Health and Human Services			<u>38,016</u>
U.S. Department of Agriculture			
Pass through Office of Public Instruction			
Summer Food Service Program	10.559	6603	<u>2,797</u>
U.S. Commission on National and Community Services			
Pass through Commissioner of Higher Education			
Campus Community Recycling		N/A	<u>84</u>
U.S. Small Business Administration			
Pass through Department of Commerce			
Fast Trac	59.077	95-51-0007	<u>30,500</u>
U.S. National Endowment for the Arts			
Pass through Montana Alliance for Arts Education			
Professional Development Institutes for Educators in the Arts		N/A	<u>600</u>
U.S. Geological Survey			
Pass through Montana State University			
Project FREEFLOW		N/A	<u>2,500</u>
Total Indirect			<u>425,928</u>
Total Federal Assistance			<u>\$1,727,946</u>

*Major Program

FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA

SCHEDULE OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 1995

DIRECT	CFDA	Project	Amount
U.S. Department of Education	Number	Number	Expended
*Pell Grant Program	84.063	P063P33839	\$ 890,491
*Upward Bound	84.047	94EP047A20428	194,938
*Student Support Services	84.042	P042A30733-94	171,037
College Work-Study Programs	84.033	P033A42416	38,834
Supplemental Educational Opportunity Grant	84.007	P007A42416	<u>34,531</u>
Total Direct			<u>1,329,831</u>
 INDIRECT			
U.S. Department of Education			
Pass through State Office of Public Instruction			
Adult Basic Education	84.002	95-56-5802-015	49,861
 Pass through Montana University System			
SSIG	84.069	N/A	13,106
 Pass through Commissioner of Higher Education			
Tech Prep	84.999	95-TP01	69,377
Disadvantaged Student Retention	84.999	FVCCLA-95-96	72,583
Preparing for Gender Equality & Nontraditional Occupations	84.999	95-GE004	13,257
Ready, Set, Go! - Skill Building for the 90's	84.999	95-SP002	31,061
School-to-Work	84.999	STW-003	638
 Pass through American Association of Community Colleges			
Campus & Community Crossroads			
The Waste Not Project	84.116	94LEB00014	<u>9,093</u>
Total U.S. Department of Education			<u>\$1,588,807</u>
 U.S. Department of Health and Human Services			
Pass Through Office of Public Instruction			
JTPA 8% Operations	13.999	95-80-5802-0523	18,158
Jobs	13.999	95-53-5802-236	9,496
Social and Rehabilitation Services	13.999	N/A	5,067
 Pass through Montana Department of Labor & Industry			
Word Processing/Clerical Training	13.999	N/A	<u>40,000</u>
Total U.S. Department of Health and Human Services			<u>72,721</u>

FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA

SCHEDULE OF FEDERAL ASSISTANCE
FOR YEAR ENDED JUNE 30, 1995 CONTINUED

	CFDA	Project	Amount
U.S. Department of Agriculture Pass through Office of Public Instruction Summer Food Service Program	10.559	6603	<u>2,205</u>
U.S. Commission on National and Community Service Pass through Commissioner of Higher Education Campus Community Recycling	N/A	N/A	<u>814</u>
U.S. Small Business Administration Pass through Department of Commerce Fast Trac	59.037	95-51-0007	<u>30,000</u>
U.S. National Endowment for the Humanities Pass through Montana Committee for the Humanities Tolerance and Intolerance Honors Symposium 1995 Total Indirect	45.129	18-1-31	<u>1,009</u> <u>365,725</u>
Total Federal Assistance			<u>\$1,695,556</u>

*Major Program

FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA

STUDENT FINANCIAL AID MODIFIED STATEMENT
OF CASH RECEIPTS AND DISBURSEMENTS
FOR THE YEAR ENDED JUNE 30, 1996

	<u>Pell</u>	<u>SSIG</u>	<u>CWS</u>	<u>SEOG</u>
Beginning Cash Balance	\$ (<u>50,325</u>)	\$ <u>500</u>	\$ (<u>2,504</u>)	\$ <u>4,466</u>
<u>Additions:</u>				
Federal Advances	855,425	8,583	34,921	42,125
Institution Matching Funds		12,526		
State Matching Funds				13,141
Transfer from Other Fund	<u> </u>	<u> </u>	<u> </u>	<u>7,200</u>
Total Additions	<u>855,425</u>	<u>21,109</u>	<u>34,921</u>	<u>62,466</u>
<u>Deductions:</u>				
Distribution to Students	812,875	16,593	23,049	62,466
Transfer to other Fund			7,200	
Administrative Expenses	<u>2,570</u>	<u> </u>	<u>4,579</u>	<u> </u>
Total Deductions	<u>815,445</u>	<u>16,593</u>	<u>34,828</u>	<u>62,466</u>
Net Change in Cash	<u>39,980</u>	<u>4,516</u>	<u>93</u>	<u> </u>
Ending Cash Balance	\$ (<u>10,345</u>)	\$ <u>5,016</u>	\$ (<u>2,411</u>)	\$ <u>4,466</u>

FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA

STUDENT FINANCIAL AID MODIFIED STATEMENT
OF CASH RECEIPTS AND DISBURSEMENTS
FOR THE YEAR ENDED JUNE 30, 1995

	<u>Pell</u>	<u>SSIG</u>	<u>CWS</u>	<u>SEOG</u>
Beginning Cash Balance	\$ _____	\$ _____	\$ _____	\$ _____
<u>Additions:</u>				
Federal Advances	840,166	13,106	36,330	34,531
Institution Matching Funds		13,303		
State Matching Funds				8,475
Transfer from Other Fund	_____	_____	_____	<u>3,594</u>
Total Additions	<u>840,166</u>	<u>26,409</u>	<u>36,330</u>	<u>46,600</u>
<u>Deductions:</u>				
Distribution to Students	883,521	25,909	30,948	42,134
Transfer to Other Fund			3,594	
Administrative Expenses	<u>6,970</u>	_____	<u>4,292</u>	_____
Total Deductions	<u>890,491</u>	<u>25,909</u>	<u>38,834</u>	<u>42,134</u>
Net Change in Cash	(<u>50,325</u>)	<u>500</u>	(<u>2,504</u>)	<u>4,466</u>
Ending Cash Balances	\$ (<u><u>50,325</u></u>)	\$ <u><u>500</u></u>	\$ (<u><u>2,504</u></u>)	\$ <u><u>4,466</u></u>

FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA

SCHEDULE OF EXPENDITURES
FOR EACH STUDENT FINANCIAL ASSISTANCE PROGRAM
FOR THE YEARS ENDED JUNE 30, 1995 AND 1996

	<u>1995</u>	<u>1996</u>
State Student Incentive Grant -		
Student Grants	\$ <u>25,909</u>	\$ <u>16,593</u>
	\$ <u>25,909</u>	\$ <u>16,593</u>
 College Work-Study Program -		
Regular CWS Wages	\$ 30,948	\$ 23,049
Administrative Costs	4,292	4,579
Transfer	<u>3,594</u>	<u>7,200</u>
	\$ <u>38,834</u>	\$ <u>34,828</u>
 Supplemental Educational Opportunity		
Grant Program -		
Student Grants	<u>42,134</u>	<u>62,466</u>
	\$ <u>42,134</u>	\$ <u>62,466</u>
 Pell Grant Program -		
Student Grants	\$ 883,521	\$812,875
Administrative Costs	<u>6,970</u>	<u>2,570</u>
	\$ <u>890,491</u>	\$ <u>815,445</u>

FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA

SCHEDULE OF ENROLLMENT STATISTICS
FOR THE YEARS ENDED JUNE 30, 1995 AND 1996

<u>SEMESTER</u>	<u>FULL-TIME EQUIVALENT</u>
Summer, 1994	226.5
Fall, 1994	1,046.5
Spring, 1995	1,171.3
Summer, 1995	214.1
Fall, 1995	1,067.2
Spring, 1996	1,117.6

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL STRUCTURE BASED ON AN AUDIT OF GENERAL PURPOSE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Legislative Audit Committee
of the Montana State Legislature

We have audited the general purpose financial statements of Flathead Valley Community College, Kalispell, Montana as of and for the years ended June 30, 1995 and 1996, and have issued our report thereon dated September 20, 1996.

We conducted our audits in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

The management of Flathead Valley Community College is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audits of the general purpose financial statements of Flathead Valley Community College, for the years ended June 30, 1995 and 1996, we obtained an understanding of the internal control structure. With respect to the internal

control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgement, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with assertions of management in the general purpose financial statements.

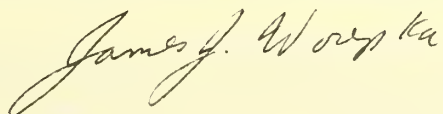
The reportable conditions noted are as follows:

Cash Management - The College accumulates large receivable and prepayment balances in different federal fund programs.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended for the information of management and the Legislative Audit Committee. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in cursive script, reading "James J. Worley".

September 20, 1996
Baker, Montana

JAMES J. WOSEPKA

CERTIFIED PUBLIC ACCOUNTANT

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE BASED ON AN AUDIT OF GENERAL PURPOSE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Legislative Audit Committee
of the Montana State Legislature

We have audited the general purpose financial statements of Flathead Valley Community College, Kalispell, Montana, as of and for the years ended June 30, 1995 and 1996, and have issued our reports thereon dated September 20, 1996.

We conducted our audits in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to Flathead Valley Community College, is the responsibility of Flathead Valley Community College's management. As part of obtaining reasonable assurance about whether the general purpose financial statements are free of material misstatement, we performed tests of the College's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the general purpose financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such a opinion.

The results of our tests disclosed the following instances of noncompliance that are required to be reported under Government Auditing Standards.

Cash Management - The College accumulates large receivable and prepayment balances in different federal fund programs.

We considered these instances of noncompliance in forming our opinion on whether Flathead Valley Community College's June 30, 1995 and 1996 general purpose financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles, and this report does not affect our report dated September 20, 1996 on those general purpose financial statements.

This report is intended for the information of management and the Legislative Audit Committee. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

James J. Wozyska

September 20, 1996
Baker, Montana

JAMES J. WOSEPKA

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL STRUCTURE USED IN ADMINISTERING FEDERAL FINANCIAL ASSISTANCE PROGRAMS

We have audited the general purpose financial statements of Flathead Valley Community College, Kalispell, Montana as of and for the years ended June 30, 1995 and 1996, and have issued our report thereon dated September 20, 1996. We have also audited Flathead Valley Community College's compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated September 20, 1996.

We conducted our audits in accordance with generally accepted auditing standards; Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-133, Audits of Institutions of Higher Education and Other Nonprofit Institutions. Those standards and OMB Circular A-133 require that we plan and perform the audits to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement and about whether Flathead Valley Community College, Kalispell, Montana complied with laws and regulations, noncompliance with which would be material to major federal financial assistance program.

In planning and performing our audits for the years ended June 30, 1995 and 1996, we considered the College's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the College's general purpose financial statements and on its compliance with requirements applicable to major federal financial assistance programs and not to provide assurance on the internal control structure in accordance with OMB Circular A-133. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the general purpose financial statements in a separate report dated September 20, 1996.

The management of Flathead Valley Community College, Kalispell, Montana is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general-purpose financial statements in accordance with generally accepted accounting principles, and that federal financial assistance programs are managed in compliance with applicable laws and regulations. Because of

inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

Activity Cycles

- Revenue/receipts
- Purchases/disbursements
- Payroll/personnel

Specific Requirements

- Cash and cash equivalents
- Receivables
- Inventory
- Property and equipment
- Payables and accrued liabilities
- Debt
- Fund balance

Accounting Applications

- Billings
- Receivables
- Cash receipts
- Purchasing and receiving
- Accounts payable
- Cash disbursements
- Payroll
- Inventory control
- Property and equipment.
- General ledger

General Requirements

- Political activity
- Civil rights
- Cash management
- Federal financial reports
- Allowable costs/cost principles
- Drug-free Workplace Act
- Administration requirements

Specific Requirements

- Types of services allowed or unallowed
- Eligibility
- Matching, level of effort, and earmarking
- Special reporting requirements
- Special test and provisions
- Federal financial reports and claims for advances and reimbursement
- Amounts claimed or used for matching.

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

During the years ended June 30, 1995 and 1996, Flathead Valley Community College, Kalispell, Montana, expended 74% and 71%, respectively, of its total federal financial assistance under major federal financial assistance programs; Pell Grants, Upward Bound, and Student Support Services.

We performed tests of controls, as required by OMB Circular A-133, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to each of the College's major federal financial assistance programs. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating significant deficiencies in the design or operation of the internal control structure that, in our judgement, could adversely affect the College's ability to administer federal financial assistance programs in accordance with applicable laws and regulations.

The reportable conditions noted are as follows:

Cash Management - The College accumulates large receivable and prepayment balances in different federal fund programs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure

elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure policies and procedures used in administrative federal assistance would not necessarily disclose all matters in the internal control structure that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weakness as defined above. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended for the information of the management and the Legislative Audit Committee. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

A handwritten signature in cursive script, reading "James J. Woyka".

September 20, 1996
Baker, Montana

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH THE GENERAL REQUIREMENTS APPLICABLE TO FEDERAL FINANCIAL ASSISTANCE PROGRAMS

Legislative Audit Committee
of the Montana State Legislature

We have audited the general purpose financial statements of Flathead Valley Community College, Kalispell, Montana as of and for the years ended June 30, 1995 and 1996, and have issued our report thereon dated September 20, 1996.

We have applied procedures to test Flathead Valley Community College, Kalispell, Montana, compliance with the following requirements applicable to each of its federal financial assistance programs, which are identified in the Schedule of Federal Awards, for the years ended June 30, 1995 and 1996. Applicable general requirements are as follows:

- Political Activity
- Civil Rights
- Cash Management
- Federal Financial Reports
- Allowable costs/cost principles
- Drug-free Workplace Act
- Administrative requirements

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's Compliance Supplement for Audits of Institutions of Higher Learning and Other Nonprofit Institutions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on Flathead Valley Community College compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

Material instances of noncompliance consist of failures to follow the general requirements that caused us to conclude that the misstatements resulting from those failures are material to Flathead Valley Community College's general purpose financial statements. The results of our tests of compliance disclosed the following material instances of noncompliance.

Cash Management - The College accumulates large receivable and prepayment balances in different federal fund programs.

We considered these material instances of noncompliance in forming our opinion on whether Flathead Valley Community College's June 30, 1995 and 1996 general purpose financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles, and this report does not affect our report dated September 20, 1996, on those general purpose financial statements.

Except as referred to in the fourth paragraph, the results of our procedures to determine compliance indicate that, with respect to the items tested, Flathead Valley Community College complied, in all material respects, with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that Flathead Valley Community College had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the Legislative Audit Committee. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

September 20, 1996
Baker, Montana

James J. Woychuk

JAMES J. WOSEPKA

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH SPECIFIC REQUIREMENTS APPLICABLE TO MAJOR FEDERAL FINANCIAL ASSISTANCE PROGRAMS

Legislative Audit Committee
of the Montana State Legislature

We have audited the general purpose financial statements of Flathead Valley Community College, Kalispell, Montana, as of and for the years ended June 30, 1995 and 1996, and have issued our report thereon dated September 20, 1996.

We have also audited Flathead Valley Community College's, Kalispell, Montana, compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to each of its major federal financial assistance programs, which are identified in the accompanying Schedule for Federal Financial Assistance for the years ended June 30, 1995 and 1996. The management of Flathead Valley Community College is responsible for the Flathead Valley Community College's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audits.

We conducted our audits in compliance with generally accepted auditing standards; Government Auditing Standards, issued by the Comptroller General of the United States, and Office of Management and Budget Circular A-133, Audits of Institutions of Higher Education and Other Nonprofit Institutions. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the specific requirements referred to in the second paragraph occurred. An audit includes examining on a test basis, evidence about Flathead Valley Community College's compliance with those requirements. We believe that our audits provide a reasonable basis for our opinion.

The results of our audit procedures did not disclose any immaterial instances of noncompliance with the requirements referred to above.

In our opinion, Flathead Valley Community College, Kalispell, Montana, complied, in all material respects, with the specific requirements referred to in the second paragraph that are applicable to each of its major federal programs for the years ended June 30, 1995 and 1996.

This report is intended for the information of management and the Legislative Audit Committee. However, this report is a matter of public record and its distribution is not limited.

September 20, 1996

Baker, Montana


LICENSED IN NORTH DAKOTA AND MONTANA

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH SPECIFIC REQUIREMENTS APPLICABLE TO NONMAJOR FEDERAL FINANCIAL ASSISTANCE PROGRAM TRANSACTIONS

Legislative Audit Committee
of the Montana State Legislature

We have audited the general purpose financial statements of Flathead Valley Community College, Kalispell, Montana, as of and for the years ended June 30, 1995 and 1996, and have issued our report thereon dated September 20, 1996.

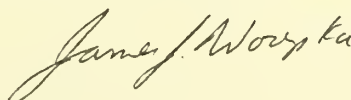
In connection with our audits of the general purpose financial statements of Flathead Valley Community College, Kalispell, Montana, and with our consideration of Flathead Valley Community College's internal control structure used to administer federal financial assistance programs, as required by Office of Management and Budget Circular A-133, Audits of Institutions of Higher Education and Other Nonprofit Institutions, we selected certain transactions applicable to certain nonmajor federal financial assistance programs for the years ended June 30, 1995 and 1996.

As required by OMB Circular A-133, we have performed auditing procedures to test compliance with the requirements governing types of services allowed or unallowed; eligibility; and reporting that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on Flathead Valley Community College's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that Flathead Valley Community College, had not complied, in all material respects, with those requirements. Also, the results of our procedures did not disclose any immaterial instances of noncompliance with those requirements.

This report is intended for the information of management and the Legislative Audit Committee. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

September 20, 1996
Baker, Montana



COLLEGE REPLY



Recommendation:

We recommend the College continue to develop a system of accounting for federal funds for each program, so revenues more closely relate to program expenditure needs.

College response:

Concur.

For the fiscal year beginning July 1, 1996, the College has initiated a new method of requesting funds for all Perkins Grants on a quarter-by-quarter basis. In the past, these funds were requested for a year in advance making it difficult to accurately predict the actual cash outflows. By making quarterly requests, the cash flows will be more predictable and will eliminate the prepayment balances.

Considering the Department of Education Title IV grants, for which there have previously been large receivables each quarter, the College has made a great deal of progress in the timely drawdown of federal funds by going to a monthly, as opposed to a quarterly, drawdown schedule of expended funds. Coordinating cash requests with the College Financial Aid Department's distribution of federal student aid at the beginning of each semester has also served to reduce the previously large receivables. To continue the improvement on this area's revenue/expenditure correlation, the College is now working on more frequent reviews of expenditures and at timing the grant drawdowns on a semi-monthly basis.

